

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 EPG-02 DODE-00 EB-07 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01
PRS-01 /114 W
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R 01072Z JUN 77
FM AMEMBASSY MUSCAT
TO SECSTATE WASHDC 3311
INFO AMEMBASSY ABU DHABI
AMEMBASSY ATHENS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
USDOC WASHDC

LIMITED OFFICIAL USE SECTION 1 OF 2 MUSCAT 0874

ATHENS FOR RTDO

E.O. 11652: N/A
TAGS: EIND BENC MU EALR
SUBJECT: OMAN'S INDUSTRIAL PIWANS

1. SUMMARY: AFTER TWO YEARS' FREEZE ON NEW PROJECTS, THE OMANGOV IS PLANNING SEVERAL PLANTS WHICH WOULD MAKE USE OF NON-ASSOCIATED NATURAL GAS FROM THE PIPELINE NOW UNDER CONSTRUCTION. SAUDI ARABIAN AND KUWAITI FINANCING HAS HELPED OVERCOME THE LACK OF FUNDS WHICH DELAYED THESE PROJECTS FOR SEVERAL YEARS. IN ADDITION TO USING THE GAS TO FUEL AN EXISTING DESALINIZATION/POWEER PLANT AT GHUBRA, THE GAS WILL BE USED FOR A CEMENT PLANT, A COPPER PROJECT, LIGHT INDUSTRY NEAR SEEB, AND A PORT/INDUSTRIAL ZONE AT BARKA. THE OMANIS ARE ALSO PLANNING AN OIL REFINERY AND PROCESSING PLANTS FOR ASSOCIATED GAS. THE OMANGOV WILL HAVE TO ESTABLISH PRIORITIES FOR NATURAL
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GAS USERS AND MUST ENSURE THAT THE NEW PROJECTS ARE TRULY PROFITABLE AND NOT YET ANOTHER WAY OF WASTING SCARCE CAPITAL.
END SUMMARY.

2. THE ONGOING NATURAL GAS PIPELINE IS SPEEDING THE PACE OF INDUSTRIAL PLANNING. THE OMANGOV RECENTLY INITIALED AN AGREEMENT WITH THE KUWAIT CEMENT COMPANY TO PROCEED WITH A LONG-

DELAYED CEMENT PROJECT (THE KUWAITIS WILL SUPPLY MOST OF THE FINANCING). THE CEMENT PLANT, NOW RATED AT 1 MILLION TONS CAPACITY, WILL BE OWNED 60 PERCENT BY THE OMANGOV AND 40 PERCENT BY THE KUWAITIS. ABOUT 40 PERCENT OF THE PLANT OUTPUT WILL BE EXPORTED TO KUWAIT IN THE FORM OF CLINKER, WHILE THE REMAINING PRODUCTION WILL BE USED FOR SATISFYING DOMESTIC DEMAND. FULLER, ALLIS-CHALMERS, AND KAISER ENGINEERING HAVE ALREADY PRESENTED PROPOSALS, AS WELL AS A NUMBER OF FRENCH AND KOREAN FIRMS. THE COMMERCE MINISTRY IS NOW SEEKING A FIRM TO DO A GEOLOGIC SURVEY FOR THE PLANT SITE, WHICH WILL BE LOCATED INLAND NEAR SIZEABLE LIMESTONE DEPOSITS.

3. THE OMANIS PLAN TO BUILD A PORT NEAR BARKA 60 MILES NORTH OF MUSCAT TO HANDLE THE OUTPUT OF THE CEMENT PLANT. (MUTRAH WILL BE USED ENTIRELY FOR CONSUMER GOODS.) AN INDUSTRIAL ZONE USING NATURAL GAS WILL BE BUILT NEAR THE PORT SITE. A STEEL REROLLING MILL OF 100,000 TONS CAPACITY IS ALREADY BEING PLANNED FOR THE BARKA INDUSTRIAL ZONE, AND SEVERAL GERMAN FIRMS HAVE ALREADY MADE DETAILED PROPOSALS. THE OMANIS ARE ALSO CONSIDERING A SPONGE IRON PLANT USING DIRECT REDUCTION, BUT THE SPONGE IRON PLANT WILL PROBABLY NOT MATERIALIZE UNLESS THE OMANIS CAN USE LOCAL IRON ORE DEPOSITS IN THE NORTH.

4. IN ADDITION TO LARGE INDUSTRIAL PROJECTS, THE OMANIS ARE PLANNING A LIGHT INDUSTRIAL ZONE AT RUSAYL, ABOUT 20 KILOMETERS FROM SEEB. GAS LINES WILL BE EXTENDED TO POWER SMALL INDUSTRIES SUCH AS A NAIL FACTORY, MACHINE SHOPS, METAL FABRICATING PLANTS, ETC. AN ASBESTOS CEMENT PLANT HAS ALREADY BEEN CONSTRUCTED NEAR THIS SITE (MUSCAT A-27).

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5. THE MUCH-DELAYED COPPER PROJECT AT SOHAR SHOULD FINALLY START TO GET UNDERWAY, AS SAUDI ARABIA HAS REPORTEDLY AGREED TO FINANCE THE PROJECT. THE EXTENT OF THE PROJECT IS STILL UNCLEAR, HOWEVER; THE GOVERNMENT IS DEBATING WHETHER TO BUILD ONLY AN ORE CONCENTRATION FACILITY OR TO REFINER THE ORE IN OMAN. WHILE THE RETURN ON INVESTMENT FOR THE CONCENTRATING FACILITY IS 10-15 PERCENT, WE HAVE HEARD THAT THE RATE OF RETURN FOR A COPPER SMELTER IS MARGINAL. OMANI PLANS TO BUILD A 20-INCH PIPELINE TO SOHAR FOR THE SMELTER, COUPLED WITH THE INFRASTRUCTURE THAT WOULD HAVE TO BE DEVELOPED FOR A REFINERY, WOULD HOLD THE PAYBACK PERIOD DOWN TO 10 OR 15 YEARS.

6. THE OMANGOV IS AT LAST MOVING TOWARD REFINING SOME OF THE CRUDE PRODUCED IN OMAN. ALTHOUGH THE PROJECT IS STILL BEING DEBATED BETWEEN THE COMMERCE AND PETROLEUM MINISTRIES, THE GOVERNMENT WILL PROBABLY DECIDE TO BUILD A 30,000 BARRELS-DAY REFINERY NEAR THE PRESENT TANKER LOADING FACILITY AT MINA AL FAHAL. THE REFINERY WILL PRODUCE GASOLINE, DIESEL AND JET

FUEL, AND BUNKER FUEL, TO BE USED ENTIRELY FOR DOMESTIC CONSUMPTION. EITHER SHELL OR BP WILL BE THE CONSULTANTS FOR THE PROJECT, AND A NUMBER OF EUROPEAN AND AMERICAN FIRMS HAVE MADE CONSTRUCTION PROPOSALS (THYSSEN OF GERMANY SEEMS TO HAVE THE INSIDE TRACK). TOTAL COST OF THE PROJECT IS ESTIMATED AT \$75 MILLION.

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R 010725Z JUN 77
FM AMEMBASSY MUSCAT
TO SECSTATE WASHDC 3312
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AMEMBASSY JIDDA

AAEXBASSY KUWAIT 807
USDOC WASHDC

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ATHENS FOR RTDO

7. THE OMANGOV IS ALSO STARTING TO PROCESS ASSOCIATED GAS IN THE NORTHERNFIELDS, WHICH IS NOW BEING USELESSLY FLARED AT THE RATE OF 276 MILLION CU. FT. A DAY. PETROLEUM DEVELOPMENT OMAN PLANS BUILDING A \$20 MILLION NATURAL GAS LIQUIDS PLANT AT YIBAL IN INTERIOR NORTHERN OMAN. CONSTRUCTION WILL BE CARRIED OUT BY SHELL, AND THE PLANT SHOULD BE ON STREAM BY AUGUST 1978. THE GAS WILL BE USED TO PRODUCE 5,000 BARRELS/ SAY OF LIGHT OIL TO BE BLENDED WITH CRUDE FROM NEARBY WELLS. LATER ON, THE PLANT WILL PROCESS 60 MILLION CUBIC FEET OF ASSOCIATED GAS FOR USE AS FUEL FOR THE POWER AND DESALINIZATION PLANT AT GHUBRA. PDO IS PRESENTLY BUILDING A SMALLER NGL PANT AT THE SAIH RAWAL FIELD TO PRODUCE 1,100 BARRELS A DAY OF LIGHT OIL; THE PLANT, WHICH WILL UTILIZE A NEW FRENCH THERMAL COOLING

PROCESS, MAY COME ON STREAM BY THE END OF 1977.

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8. COMMENT: OMAN'S INDUSTRIALIZATION PLANS ARE A COM-MENDABLE STEP TOWARD FINDING INCOME-GENERATING PROJECTS WHICH CAN PARTLY SUPPLEMENT THE DECLINE IN OIL REVENUES. THE CEMENT PLANT AND THE OIL REFINERY WILL PROBABLY BE USEFUL AND PROFIT-ABLE IMPORT SUBSTITUTION PROJECTS (THE REFINERY IS EXPECTED TO HAVE A PAYBACK OF NO MORE THAN 5 YEARS). UNFORTUNATELY, OTHER LARGE PROJECTS SUCH AS COPPER, SPONGE IRON, ETC., COULD TIE UP AN ENORMOUS AMOUNT OF CAPITAL AND PROVIDE ONLY A MARGINAL RETURN AT BEST. THE OMANIS HAVE NOT TAKEN INTO ACCOUNT THE FULL COST OF RELATED PROJECT INFRASTRUCTURE, WHICH IS AT LEAST AS MUCH AS THE PROJECTS THEMSELVES. THE OMANGOV WILL HAVE TO ESTABLISH STRICT PRIORITIES FOR NATURAL GAS UTILIZATION, GIVING HIGHEST PREFERENCE TO ELECTRIC POWER, WHICH IS ALREADY IN SHORT SUPPLY. EXPATRIATE ADVISERS IN THE COMMERCE MINISTRY HOPE THAT THE OMANGOV WILL NOT BE PERSUADED BY LOCAL BUSINESS-MEN TO PREOTEC THE NEW INDUSTRIES, AND WILL INSTEAD FORCE THE PLANTS TO BE FULLY COMPETITIVE.

9. ACTION REQUESTED: THE CEMENT AND REFINERY PROJECTS ARE OPEN TO FIRMS INTERESTED IN EXPLORATORY PROPOSALS. FIRMS IN-TERESTED IN THE REFINERY PROJECT SHOULD CONTACT MR. MALIK ADAWI, MINISTRY OF COMMERCE AND INDUSTRY, P.O. BOX 550, MUSCAT, SULTANATE OF OMAN (CABLES: WIZARAH; TELEX: MB-3351 WIZARAH MUSCAT). COMPANIES INTERESTED IN THE CEMENT PLANT SHOULD CONTACT MR. ADEL MARAI, MINN TRY OF COMNBRCE AND INDUSTRY (SAME ADDRESS AS ABOVE).
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Message Attributes

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